

IPUC Case No. AVU-G-15-03

In the Matter of Avista Corporations's Application  
to Resume Natural Gas Efficiency Programs and  
Increase the Rider Surcharge in Schedules 190 and 191

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Comments by Lynn Anderson

December 10, 2015

Avista Utilities' application to resume its natural gas efficiency programs and to raise its Idaho retail rates by an average of 1.7% to recover the estimated \$1.25 million annual costs of the efficiency programs is based on inadequate and faulty explanations, assumptions and analyses. Furthermore, both the process and the analytical methods of changing avoided costs and cost-effectiveness metrics used to justify resumption of the efficiency programs, if accepted by the Commission, will set new and significant policy precedents for all natural gas, electricity and water utilities under IPUC regulation. My interest in Avista's application is as an advocate of cost-effective efficiency for more than four decades and as a customer of Idaho Power, Intermountain Gas and United Water, each of which could be affected by the application's proposed changes. Avista's request to process this application through modified procedure should be denied due to:

- 1) Deficiencies in the application and in answering staff's production requests;
- 2) Adverse precedential consequences for customers of all Idaho utilities due to the inappropriately proposed process changes to the avoided cost determination and application to the metrics of determining cost-effectiveness of efficiency programs;
- 3) Adverse precedential consequences for customers of all Idaho utilities due to the proposed inappropriate primary reliance on the utility cost test (UCT), and especially a UCT lacking a net-to-gross (NTG) adjustment, to determine cost-effectiveness of efficiency programs.
- 4) Neither Avista's Application nor its notices to customers provided sufficient information for most customers to be knowledgeable about how the proposed rate increase will affect their bills or whether the proposed efficiency program will help them reduce their bills.
- 5) The short time period (20 days) between the Notice of Application and the comment deadline included the Thanksgiving holiday, a winter storm that caused long, widespread electricity outages and other adversities for thousands of Avista's customers, and Medicare's open enrollment deadline. All of these factors undoubtedly hindered the interest level and the ability for people to comment on Avista's proposals.

### **Avoided Cost Deficiencies of Process, Calculation and Application of Discount Rates**

I have read Jonathan Powell's comments in this case filed on December 7, 2015, and agree with his critique of Avista's revisions to the avoided cost stream and the process it used to make these revisions. I do not question the appropriateness of utilities updating their avoided costs between their Integrated Resource Plan (IRP) regular biennial filings if such updates are due to significant changes of base energy costs. However, Avista's proposed avoided cost changes fall into the category of assumption and method changes and those types of changes should be accomplished via normal and transparent IRP public advisory committee vetting processes. I also agree with Mr. Powell's critique of Avista's misuse and misapplication of discount rates, which I believe suggests that Avista's analysis was based more on desired outcome than on analytical prudence.

### **Avista's Proposal to Focus Primarily on the Utility Cost Test (UCT or PACT)**

The application "...proposes, in this filing to measure natural gas programs under the UCT because the acquisition achievable by use of this metric is greater than that which would have been arrived at by use of the Total Resource Cost (TRC) metric." p. 2 The logic in this statement is lacking and again suggests that Avista's analysis is primarily outcome driven rather than based on being prudent stewards of customer funds.

The application claims that measuring cost-effectiveness by the TRC metric has a potential for bias against conservation programs. Footnote 2, p. 2 The explanation offered to support this claim is unconvincing and the claim is not supported by nationally accepted cost-effectiveness reference manuals such as the National Action Plan for Energy Efficiency's *Understanding of Cost-Effectiveness of Energy Efficiency Programs*, Electric Power Research Institute's *End-Use Technical Assessment Guide*, and the *California Standard Practice Manual: Economic Analysis of Demand-Side Programs and Projects*. While it is true that the TRC test usually yields a lower benefit-cost ratio than the UCT if the net-to-gross ratios are high, the lower B/C ratio is rarely, if ever, primarily due to a bias against efficiency. Instead the typically lower TRC B/C ratios are usually the result of simply including customer costs in the test. It seems almost disingenuous to suggest that the inclusion of these real costs creates a bias. Instead, a bias is created when a large portion of the total cost is excluded, as in the UCT.

The application states that "Historically, the TRC has been the primary tool to measure cost-effectiveness with additional attention paid to the perspectives provided by the UCT, Participant Cost Test (PCT) and Ratepayer Impact Measurement (RIM)." p. 6 But it is important to note that the Idaho Commission and its staff have a long history of not relying on a primary test, but instead, beginning with the Order No. 22299 issued in 1989 and reinforced in several orders since then, the Commission has consistently stated that a multiple cost-effectiveness tests should be used by utilities to prudently plan and manage energy efficiency programs. The use of

multiple tests was also emphasized by the Commission staff in its Attachment No. 1 to the 2009 Memorandum of Understanding for Prudency Determination of DSM Expenditures (MOU) that was signed by the staff, Avista Utilities, Idaho Power Company and Rocky Mountain Power. (Staff's MOU Attachment No. 1 is attached to these comments.) It is difficult to understand why Avista's application now states that the TRC has historically been its primary tool to assess its Idaho efficiency programs.

Curiously, in alleging a shortcoming of the TRC, the application states that "...but the costs are primarily driven by the cost the customer's [sic] pay for the individual conservation measure." p. 6 But Avista's proposed tariff Sheet 190A states that all project incentives will be capped at 70% of incremental costs and then lists several situations where incentives will be paid up to 100% of customer costs. How can total conservation costs be primarily driven by customer costs when Avista will pay up to 70% of costs, or even up to 100% of costs for many projects?

The application states that when Avista filed to suspend its natural gas efficiency program in Washington due to it not being TRC cost-effective, the commission in that state (the WUTC) encouraged the company to use the UCT instead of the TRC. Avista first notified the WUTC of the non-cost-effectiveness of its gas program in February 2012, which initiated discussions and Avista filed its application to discontinue its gas program in June 2012. In September 2012, I listened to the WUTC wrangling with this issue during an open meeting and I have read its *Policy Statement on the Evaluation of Cost-Effectiveness of Natural Gas Conservation Programs* issued more than a year later on October 9, 2013. It is noteworthy that the WUTC's *Policy Statement* says it prefers the TRC (as modified by the NWPCC), but that if a properly balanced TRC is not available for gas efficiency, then it is permissible for a gas utility to use the UTC if it is closely guided by its energy efficiency advisory group (which I believe transfers more responsibility to an advisory group than is normally appropriate). Apparently the NWPCC's 10% adder to efficiency benefits, which is required by the WUTC for all utilities' programs, was deemed insufficient to properly balance the TRC for Avista gas programs. It is also noteworthy that the WUTC solicited and received comments from other natural gas utilities in Washington as well as from several private and government entities. I can attest that the WUTC's decision to allow (but in reality, require) Avista to use the UTC to replace the TRC was not easily made, that it was politically influenced, that it was partly based on not wanting to let an existing program end due to costs of stopping and starting programs, that some of the allegations about the lack of a "properly balanced" TRC for gas efficiency were greatly exaggerated, and that some of the logic in support of its decision was a bit tortured. Given the protracted history of the WUTC's process and decision, I can understand why Avista would request modified procedure for the Idaho Commission to reach a similar decision, but that history clearly suggests that the decision to allow programs to be implemented based on the UCT is not one that should be made hastily and certainly not via modified procedure.

The application refers to a "draft revised Memorandum of Understanding" provided by the Commission staff that encouraged Avista's proposal to focus on the UCT for cost-effectiveness. I asked the Commission staff for a copy of its draft revised MOU, but staff refused to provide a

copy and said that its idea of revising the MOU was taking a different course than envisioned. While I believe it is inappropriate for Avista to have referenced a draft document that is not publicly available, it is even more inappropriate for major policy changes with precedential impacts, such as emphasizing any particular cost-effectiveness test that results in rate increases, to be formed without ample opportunity for public scrutiny. Avista's application also quotes Order No. 33365 in an Idaho Power case to support its proposed primary reliance on the UCT for cost-effectiveness, which is illustrative of how proposed policy changes in one utility's case can be used as precedent for another utility's proposal. It is imperative that such a major policy change as deviating from relying on multiple perspectives of cost-effectiveness to primarily focusing on just one test be announced statewide and that deliberate and ample opportunity be provided for Idaho's utility customers, energy efficiency professionals, and other interested entities to provide their varying perspectives and analyses.

### **Avista's Estimated Cost-Effectiveness for the Proposed Idaho Gas Efficiency Program**

Avista's answer to staff's production request No. 1 shows that the company estimates its cost-effectiveness will be the same as forecasted in its business plan for Washington. It is important to note that the forecasted cost-effectiveness test results do not include critically important net-to-gross (NTG) adjustments that would reduce cost-effectiveness, but do include a 10% conservation adder to savings benefits and also include the many avoided cost errors and dubious changes that enhance cost-effectiveness, as detailed by Jonathan Powell's comments in this case. Even with all these errors and/or attempts to manipulate higher cost-effectiveness results, the program is still shown to not pass the TRC test. Furthermore, the rate impact (RIM) test result of 0.27 is the lowest I can recall ever seeing in my decades of experience as an energy efficiency professional, e.g. it is 1/4th of Idaho Power's RIM results shown in that utility's 2014 DSM Report. The extremely low RIM results, combined with low TRC and high participant cost (PCT) test results suggest that Avista's proposed program is more of a wealth redistribution program than an equitable and cost-effective energy efficiency program.

When a NTG factor is applied and the avoided cost errors are corrected, all of the cost-effectiveness results will decrease, perhaps to the levels that Jonathan Powell suggests in his comments, i.e. benefit/cost ratios of 0.35 TRC and 0.80 UCT.

I agree with Jonathan Powell's comments in his critique of Avista's cost-effectiveness calculations that do not include net-to-gross (NTG) adjustments. All of the nationally recognized energy efficiency cost-effectiveness manuals cited above stress the importance of NTG in estimating cost-effectiveness, as do the staff's attachment to the MOU and the *Cost-Effective Energy Efficiency Report* that the Energy Efficiency and Conservation Task Force submitted to the Idaho Strategic Energy Alliance in 2013. NTG adjustments are critically important in the UCT and RIM tests. Avista's proposal to primarily rely on the UCT without adjusting for NTG and apparently without paying attention to RIM results is without merit, unless the goal is simply to spend customer funds to reduce energy use without regard to true cost-effectiveness, let alone

equity among customers.

### **Avista's Deficiency in Answer to Staff's Production Request No 6**

Staff's Request No. 6 asked Avista to explain how it uses net-to-gross (NTG) estimates of savings in managing its natural gas energy efficiency programs, or, if Avista does not use NTG, to explain why not. And, secondly, to estimate how applying NTG estimates to the UCT could affect cost-effectiveness. Avista answered only the second question, i.e. how NTG could have a much greater impact on the the UCT than the TRC and gave the example that a 0.7 NTG factor would reduce a hypothetical 2.0 gross UCT B/C ratio down to 1.4 net B/C ratio. Avista did not answer staff's first question of how, or if, it uses NTG to manage its programs. It is important to know that Avista does not use NTG to estimate the cost-effectiveness of its Washington natural gas program and, in fact, did not use NTG to adjust its forecast of Idaho cost-effectiveness. In summary, when directly asked by staff if it uses NTG, Avista did not answer and instead disingenuously created an illusion that it uses NTG adjustments to account for program participants who would have installed the efficient appliance in the absence of the program as well as for other factors.

### **Avista's Application, Bill Insert and Press Release Provide Insufficient Information**

The application, bill insert and press release all provide scant information on how the rate increase will affect different customer classes and individual customers within each class. The common statements that the rate increase will collect \$1.25 million annually and will save 233,000 therms have no contextual meaning to customers. The program description in the application consists only of "eligible weatherization and high efficiency equipment measures as well as custom incentives for non-residential projects" and the abbreviated, cryptic list of programs in Table 1 that are labeled as Washington programs. Avista's bill insert and press release contain even less information than the application. The description of the rate increase common in all three documents is that rates will increase by 1.7% and that residential customers using 61 therms will see a \$1.11 increase in monthly bills. In actuality, residential rates will increase by 2.0% and customers with three people in the household and with gas space and water heating will, on average, see their bills increase by more than \$2 per month (based on Avista's current residential rates and typical usage (default settings) used by Avista in its Fuel Cost Comparison Calculator available at <https://www.avistautilities.com/savings/suite/Pages/fuelcalculator.aspx> ). Households with more or elderly people or with larger homes or those more difficult to weatherize will see even larger bill increases. Avista has provided almost no information to customers to show how, or even if, its proposed efficiency program will help them reduce their bills.

## **Alternative Recommendations for Commission Disposition of Avista Application**

Having been employed by the IPUC for more than 30 years, I understand and appreciate that the Commission and its staff are justifiably reluctant to micro-manage the utilities it regulates and that the preferred course is usually to let utilities manage themselves and be held financially responsible for their prudent management or lack thereof. However, there are times when a utility's analyses behind a proposal in an application is so flawed that the Commission should prevent the utility from harming its customers before the fact rather than after the fact. I believe Avista application is one of those times that requires proactive Commission involvement. Thus, my three alternative recommendations are as follows:

- 1) Deny the application in its totality without scheduling a hearing. Furthermore, I believe that Avista's deficiencies and lack of forthrightness in its application and production request responses approach the level that its analytical, administrative and legal costs of preparing this filing should at least be considered for disallowance as imprudent expenses. It seems fair that Avista's natural gas customers should not bear these costs.
- 2) If the Commission does not want to deny the application without a hearing, then it should at least suspend the application and require Avista to amend it with supporting testimony, exhibits and other information useful to its customers, after which the Commission should notify all Idaho utilities and their customers of Avista's proposal to primarily use the UCT to estimate cost-effectiveness of efficiency programs and that this may ultimately result in all utilities being required to substantially increase their efficiency efforts and rates for funding them (or begin an efficiency program as in the case of Intermountain Gas).
- 3) Or preferable to 2) above, if the Commission does not want to deny the application without a hearing, then I recommend that it suspend the application and initiate a generic docket to investigate processes and metrics of avoided costs and cost-effectiveness of efficiency programs for all utilities.

Thank you for the opportunity to provide comments.

Lynn Anderson

720 Bacon Drive

Boise, Idaho 83712

## ATTACHMENT NO. 1

### Staff Expectations for Cost-Effectiveness Tests, Methods and Evaluations

1. Cost Effectiveness Measurements. As stated at the October 5, 2009, DSM evaluation workshop, Staff believes that prudent DSM management requires that cost-effectiveness be analyzed from a wide variety of perspectives, including the ratepayer impact perspective, and that all programs and individual measures should have the goal of cost-effectiveness from the total resource, utility, and participant perspectives. (See IPUC Order No. 22299 issued January 27, 1989, and Order No. 28894 issued November 21, 2001.) If a particular measure or program is pursued in spite of the expectation that it will not, itself, be cost-effective from each of those three perspectives, then the annual DSM report should explain why the measure or program was implemented or continued.

2. Net-to-Gross Adjustments. The net-to-gross issue was also discussed at the evaluation workshop. Some of the references that the utilities assert that they use, such as the *California Standard Practice Manual*, actually require that all tests be done on a net savings basis. Staff continues to assert that most programs and measures have a significant number of participants who would have installed the measure or changed their behavior in the absence of the utility program. Absent new evaluation research to provide a basis for the net-to-gross adjustments used by each utility, the utility has the burden of explaining the source of its net savings adjustments or lack thereof. Staff will continue to assess whether utility cost-effectiveness estimates sufficiently and prudently include net-to-gross adjustments.

3. Third-Party Evaluators. Independence of evaluators from program and portfolio management is another important issue that was discussed at the evaluation workshop. While it was generally agreed that not all evaluations need to be performed by third-party evaluators, Staff believes such evaluations tend to be perceived as being more objective and transparent, and thus more credible, than evaluations performed by utility staff, all other factors being equal. While Staff will review all evaluations and may

review any evaluation in depth, utilities should expect that their self-evaluations may be scrutinized more closely than third-party evaluations, as may the programs themselves.

4. Estimating Non-Energy Benefits. Non-energy benefits are important and prudent factors to assess in analyzing cost-effectiveness and determining incentive levels, but Staff cautions against creating confusion by subtracting the estimated value of non-energy benefits from program and measure costs when reporting DSM costs on a cents per kWh basis.

5. Contractor Costs. After DSM reports are filed in 2010, Staff may reconsider whether to require inclusion of specific contract amounts paid to contractors in subsequent DSM reports.

6. Suggested Resources. In addition to the several evaluation, measurement, and cost-effectiveness manuals that were discussed at the workshop, Staff suggests it may be useful for utilities to generally follow the guidelines in the National Action Plan for Energy Efficiency's *Model Energy Efficiency Program Impact Evaluation Guide*, released November 2007. Another of NAPEE's reports titled *Understanding Cost-Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers* may also be useful.